

ZERONE TECHNOLOGY COMPANY LIMITED
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS FOR THE
THREE MONTHS ENDED MARCH 31, 2020 AND 2019 AND
INDEPENDENT AUDITORS' REPORT

Address: 10F., No.8, Ln. 360, Sec. 1, Neihu Rd.,
Taipei City.
Dial: +886 2 2656 5656

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INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Zero One Technology Company Limited

Introduction

We have reviewed the accompanying consolidated financial statements of Zero One Technology Company Limited and its subsidiaries (the "Group") as of March 31, 2020 and 2019 and the consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods then ended March 31, 2020 and 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting," endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects the financial position of the entity as at March 31, 2020 and 2019, and of its consolidated financial performance and its consolidated cash flows for the three-month periods then ended March 31, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting," endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the audit resulting in this independent auditors' report are Chen Ming, Li and Pei Te, Chen.

Deloitte & Touche

Taipei, Taiwan
Republic of China

April 27, 2020

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2020, December 31, 2019, and March 31, 2019
(In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2020 (Reviewed)		December 31, 2019 (Audited)		March 31, 2019 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 514,883	10	\$ 335,497	7	\$ 326,957	8
Financial assets at fair value through profit or loss - current (Note 7)	66,897	1	65,425	1	95,503	2
Financial assets at fair value through other comprehensive income - current (Note 8)	6,300	-	-	-	10,228	-
Financial assets at amortized cost-current (Note 9)	884,502	16	699,048	13	375,974	9
Notes receivable (Note 10)	279,764	5	279,128	5	152,504	4
Trade receivables (Note 10)	1,818,321	34	1,754,979	34	1,790,152	43
Inventories (Note 11)	1,131,859	21	1,319,535	25	805,286	19
Current tax assets (Note 4)	-	-	1,314	-	-	-
Other current assets	10,381	-	34,794	1	14,709	-
Total current assets	<u>4,712,907</u>	<u>87</u>	<u>4,489,720</u>	<u>86</u>	<u>3,571,313</u>	<u>85</u>
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss - non-current (Note 7)	28,447	-	30,280	1	42,920	1
Financial assets at fair value through other comprehensive income- non-current (Note 8)	242,616	4	251,768	5	140,574	3
Financial assets at amortized cost - non-current (Notes 9 and 27)	89,431	2	81,624	1	79,643	2
Property, plant and equipment (Notes 13 and 27)	311,774	6	314,412	6	313,706	8
Right-of-use assets (Notes 14)	6,564	-	8,303	-	7,230	-
Other intangible assets	1,167	-	1,395	-	1,439	-
Deferred tax assets (Note 4)	45,515	1	42,509	1	34,857	1
Refundable deposits	6,362	-	5,341	-	2,934	-
Total non-current assets	<u>731,876</u>	<u>13</u>	<u>735,632</u>	<u>14</u>	<u>623,303</u>	<u>15</u>
TOTAL	<u>\$5,444,783</u>	<u>100</u>	<u>\$5,225,352</u>	<u>100</u>	<u>\$4,194,616</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 15)	\$ 251,000	5	\$ 150,000	3	\$ -	-
Trade payables	1,921,645	35	2,035,186	39	1,499,350	36
Other payables (Note 16)	477,565	9	381,418	7	137,675	3
Current tax liabilities (Note 4)	85,023	2	57,249	1	75,396	2
Lease liabilities - current (Notes 14)	3,550	-	4,553	-	4,893	-
Other current liabilities	174,433	3	143,072	3	146,909	3
Total current liabilities	<u>2,913,216</u>	<u>54</u>	<u>2,771,478</u>	<u>53</u>	<u>1,864,223</u>	<u>44</u>
NON-CURRENT LIABILITIES						
Deferred tax liabilities (Note 4)	-	-	793	-	243	-
Lease liabilities - non-current (Notes 14)	3,065	-	3,803	-	2,369	-
Net defined benefit liabilities - non-current (Notes 4 and 18)	21,347	-	21,918	1	21,132	1
Other non-current liabilities	1,171	-	1,171	-	800	-
Total non-current liabilities	<u>25,583</u>	<u>-</u>	<u>27,685</u>	<u>1</u>	<u>24,544</u>	<u>1</u>
Total liabilities	<u>2,938,799</u>	<u>54</u>	<u>2,799,163</u>	<u>54</u>	<u>1,888,767</u>	<u>45</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 19)						
Share capital						
Ordinary shares	1,248,462	23	1,246,352	24	1,233,092	29
Capital surplus	473,245	9	470,136	9	451,417	11
Retained earnings						
Legal reserve	184,732	3	184,732	4	159,438	4
Special reserve	16,844	-	16,844	-	15,501	-
Unappropriated earnings	587,633	11	494,764	9	449,584	11
Total retained earnings	789,209	14	696,340	13	624,523	15
Other equity	(13,352)	-	7,476	-	(10,798)	-
Total equity attributable to owners of the Company	<u>2,497,564</u>	<u>46</u>	<u>2,420,304</u>	<u>46</u>	<u>2,298,234</u>	<u>55</u>
NON-CONTROLLING INTERESTS	<u>8,420</u>	<u>-</u>	<u>5,885</u>	<u>-</u>	<u>7,615</u>	<u>-</u>
Total equity	<u>2,505,984</u>	<u>46</u>	<u>2,426,189</u>	<u>46</u>	<u>2,305,849</u>	<u>55</u>
TOTAL	<u>\$5,444,783</u>	<u>100</u>	<u>\$5,225,352</u>	<u>100</u>	<u>\$4,194,616</u>	<u>100</u>

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three months ended March 31, 2020 and 2019
(Reviewed, Not Audited)
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Three Months Ended March 31			
	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE				
Net sales	\$ 2,531,807	100	\$ 2,097,480	100
OPERATING COSTS (Notes 11 and 20)				
Cost of goods sold	<u>2,295,936</u>	<u>90</u>	<u>1,882,890</u>	<u>90</u>
GROSS PROFIT	<u>235,871</u>	<u>10</u>	<u>214,590</u>	<u>10</u>
OPERATING EXPENSES (Note 20)				
Selling and marketing expenses	82,396	3	79,278	4
General and administrative expenses	34,491	2	30,415	1
Research and development expenses	1,452	-	1,557	-
Expected credit loss recognized (reversed) on trade receivables (Notes 10)	<u>516</u>	<u>-</u>	<u>5,825</u>	<u>-</u>
Total operating expenses	<u>118,855</u>	<u>5</u>	<u>117,075</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>117,016</u>	<u>5</u>	<u>97,515</u>	<u>5</u>
NON-OPERATING INCOME AND EXPENSES (Note 20)				
Other income	6,985	-	5,616	-
Other gains and losses	(6,524)	-	3,875	-
Finance costs	<u>(1,070)</u>	<u>-</u>	<u>(319)</u>	<u>-</u>
Total non-operating income and expenses	<u>(609)</u>	<u>-</u>	<u>9,172</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	116,407	5	106,687	5
INCOME TAX EXPENSE (Note 21)	<u>24,698</u>	<u>1</u>	<u>21,165</u>	<u>1</u>
NET PROFIT	<u>91,709</u>	<u>4</u>	<u>85,522</u>	<u>4</u>

(Continued)

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31, 2020 and 2019

(Reviewed, Not Audited)

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Three Months Ended March 31			
	2019		2018	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	(\$ 22,069)	(1)	\$ 6,708	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	(243)	-	-	-
Other comprehensive income (loss) for the period, net of income tax	(22,312)	(1)	6,708	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>\$ 69,397</u>	<u>3</u>	<u>\$ 92,230</u>	<u>4</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 92,869	4	\$ 86,200	4
Non-controlling interests	(1,160)	-	(678)	-
	<u>\$ 91,709</u>	<u>4</u>	<u>\$ 85,522</u>	<u>4</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 70,769	3	\$ 92,908	4
Non-controlling interests	(1,372)	-	(678)	-
	<u>\$ 69,397</u>	<u>3</u>	<u>\$ 92,230</u>	<u>4</u>
EARNINGS PER SHARE (Note 22)				
From continuing operations				
Basic	<u>\$ 0.75</u>		<u>\$ 0.70</u>	
Diluted	<u>\$ 0.73</u>		<u>\$ 0.69</u>	

(Concluded)

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2020 and 2019

(Reviewed, Not Audited)

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

	Equity Attributable to Owners of the Company							Other Equity						
	Share Capital			Retained Earnings				Exchange differences on translating the financial statements of foreign operations	Unrealized gain (loss) on Financial Assets at FVTOCI	Unearned Employee benefits	Total	Total	Non-controlling Interests	Total Equity
	Shares (In Thousand)	Issued Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total							
BALANCE, JANUARY 1, 2019	122,896	\$ 1,228,965	\$ 446,515	\$ 159,438	\$ 15,501	\$ 362,722	\$ 537,661	\$ -	(\$ 16,844)	\$ -	(\$ 16,844)	\$ 2,196,297	\$ 8,293	\$ 2,204,590
Net profit (loss) for the three months ended March 31, 2019	-	-	-	-	-	86,200	86,200	-	-	-	-	86,200	(678)	85,522
Other comprehensive income (loss) for the three months ended March 31, 2019, net of income tax	-	-	-	-	-	-	-	-	6,708	-	6,708	6,708	-	6,708
Total comprehensive income (loss) for the three months ended March 31, 2019, net of income tax	-	-	-	-	-	86,200	86,200	-	6,708	-	6,708	92,908	(678)	92,230
Convertible bonds converted to capital stock	338	3,377	1,722	-	-	-	-	-	-	-	-	5,099	-	5,099
Share based payment transaction - employee stock option	-	-	2,930	-	-	-	-	-	-	-	-	2,930	-	2,930
Issuance of ordinary shares under employee share options	75	750	250	-	-	-	-	-	-	-	-	1,000	-	1,000
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	662	662	-	(662)	-	(662)	-	-	-
BALANCE, MARCH 31, 2019	<u>123,309</u>	<u>\$ 1,233,092</u>	<u>\$ 451,417</u>	<u>\$ 159,438</u>	<u>\$ 15,501</u>	<u>\$ 449,584</u>	<u>\$ 624,523</u>	<u>\$ -</u>	<u>(\$ 10,798)</u>	<u>\$ -</u>	<u>(\$ 10,798)</u>	<u>\$ 2,298,234</u>	<u>\$ 7,615</u>	<u>\$ 2,305,849</u>
BALANCE, JANUARY 1, 2020	124,635	\$ 1,246,352	\$ 470,136	\$ 184,732	\$ 16,844	\$ 494,764	\$ 696,340	\$ -	\$ 17,865	(\$ 10,389)	\$ 7,476	\$ 2,420,304	\$ 5,885	\$ 2,426,189
Net profit (loss) for the three months ended March 31, 2020	-	-	-	-	-	92,869	92,869	-	-	-	-	92,869	(1,160)	91,709
Other comprehensive income (loss) for the three months ended March 31, 2020, net of income tax	-	-	-	-	-	-	-	(170)	(21,930)	-	(22,100)	(22,100)	(212)	(22,312)
Total comprehensive income (loss) for the three months ended March 31, 2020, net of income tax	-	-	-	-	-	92,869	92,869	(170)	(21,930)	-	(22,100)	70,769	(1,372)	69,397
Share based payment transaction – restricted stock awards	-	-	-	-	-	-	-	-	-	1,272	1,272	1,272	-	1,272
Share based payment transaction - employee stock option	-	-	1,966	-	-	-	-	-	-	-	-	1,966	-	1,966
Recall of unissued shares of restricted stock awards	(12)	(120)	120	-	-	-	-	-	-	-	-	-	-	-
Issuance of ordinary shares under employee share options	223	2,230	1,023	-	-	-	-	-	-	-	-	3,253	-	3,253
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	3,907	3,907
BALANCE, MARCH 31, 2020	<u>124,846</u>	<u>\$ 1,248,462</u>	<u>\$ 473,245</u>	<u>\$ 184,732</u>	<u>\$ 16,844</u>	<u>\$ 587,633</u>	<u>\$ 789,209</u>	<u>(\$ 170)</u>	<u>(\$ 4,065)</u>	<u>(\$ 9,117)</u>	<u>(\$ 13,352)</u>	<u>\$ 2,497,564</u>	<u>\$ 8,420</u>	<u>\$ 2,505,984</u>

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2020 and 2019

(Reviewed, Not Audited)

(In Thousands of New Taiwan Dollars)

	For the Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 116,407	\$ 106,687
Adjustments for:		
Depreciation expenses	5,718	4,577
Amortization expenses	228	181
Expected credit loss recognized (reversed) on trade receivables	516	5,825
Net (gain) /loss on fair value change of financial assets and liabilities at fair value through profit or loss	3,604	(3,739)
Finance costs	1,070	319
Interest income	(6,927)	(4,487)
Compensation costs of employee share options	3,238	2,930
Gain on disposal of property, plant and equipment	(40)	-
(Reversal of) write-downs of inventories	7,997	(19,937)
Net loss on foreign currency exchange	481	52
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	(3,243)	(7,719)
Notes receivable	(636)	8,626
Trade receivables	(63,624)	(67,723)
Inventories	179,679	155,727
Other current assets	23,228	10,438
Trade payables	(118,141)	(153,252)
Other payables	95,638	(107,018)
Other current liabilities	31,361	39,838
Net defined benefit liabilities	(571)	(447)
Cash (used in) generated from operations	275,983	(29,122)
Income tax paid	591	967
Net cash (used in) generated from operating activities	<u>276,574</u>	<u>(28,155)</u>

(Continued)

ZERO ONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2020 and 2019

(Reviewed, Not Audited)

(In Thousands of New Taiwan Dollars)

	For the Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(\$ 19,217)	\$ -
Proceeds from sale of financial assets at fair value through other comprehensive income	-	4,549
Purchase of financial assets at amortized cost	(192,119)	-
Proceeds from sale of financial assets at amortized cost	-	211,942
Payments for property, plant and equipment	(1,393)	(2,491)
Proceeds from disposal of property, plant and equipment	40	-
(Increase)/Decrease in refundable deposits	(1,021)	223
Payment for intangible assets	-	(670)
Interest received	<u>8,110</u>	<u>2,752</u>
Net cash generated from (used in) investing activities	<u>(205,600)</u>	<u>216,305</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase/(Decrease) in short-term borrowings	101,000	(100,000)
Repayment of principal portion of lease liabilities	(1,689)	(1,234)
Exercise of employee share options	3,253	1,000
Interest paid	(1,068)	(320)
Dividends paid to non-controlling interests	<u>3,907</u>	<u>-</u>
Net cash used in financing activities	<u>105,403</u>	<u>(100,554)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>3,009</u>	<u>735</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	179,386	88,331
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>335,497</u>	<u>238,626</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 514,883</u>	<u>\$ 326,957</u>

(Concluded)

ZERONE TECHNOLOGY CO., LTD. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS ENDED MARCH 31, 2020 and 2019

(Reviewed, Not Audited)

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Zerone Technology Company Limited (ZOTC) was incorporated as a company limited by shares under the provisions of the Group Law of the Republic of China in June 27, 1980. On January 21, 2000, ZOTC's Shares were listed on Taipei Exchange(TPEX). On August 26, 2002, ZOTC's shares were listed on the Taiwan Stock Exchange(TWSE). ZOTC is a dedicated foundry in the technology industry which engages mainly in the design, manufacturing, packaging, selling, consulting and services of electronic information, computer software, hardware, accessories, components and Chinese data processing, etc.

The consolidated financial statements are expressed by the functional currency (New Taiwan Dollars) of the Group.

2. THE DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were approved by the Board of Directors and issued on April 27, 2020.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

(1)Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC).

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC for application would not have a significant effect on the Group's accounting policies:

(2)New IFRSs in issue by the IASB but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by the IASB (Note 1)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by the IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

Note: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1)Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. The consolidated financial statements do not present all the disclosures required for a complete set of annual consolidated financial statements prepared under the IFRSs endorsed and issued into effect.

(2)Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, and present value of defined benefits plans deducts net defined benefit liabilities measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- A. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities, which can be acquired during measurement date;
- B. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- C. Level 3 inputs are unobservable inputs for the asset or liability.

(3)Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group and the entities controlled by the Group (i.e. its subsidiaries). When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See Note 12, Tables 3&5 for the detailed information of subsidiaries, the percentage of ownership and main business.

(4)Other Significant Accounting Policies

Except for the following with respect to financial instruments and revenue recognition, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2019.

A. Defined benefits of retirement

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

B. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

Key sources of the same critical accounting judgments, estimates and uncertainty assumption have been followed in these consolidated financial statements for the year ended December 31, 2019.

6. CASH AND CASH EQUIVALENTS

	March 31, 2020	December 31, 2019	March 31, 2019
Cash on hand	\$ 72	\$ 183	\$ 128
Checking accounts and demand deposits	86,506	118,757	96,014
Cash equivalents			
Time Deposits in banks	105,697	216,557	230,815
Repurchase Agreements Collateralized by Bonds	322,608	-	-
	<u>\$ 514,883</u>	<u>\$ 335,497</u>	<u>\$ 326,957</u>

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Financial assets – current</u>			
Mandatorily measured at FVTPL			
Domestic convertible bond	\$ 39,557	\$ 31,182	\$ 51,127
Forward Exchange Agreement (1)	-	-	1,878
Fund beneficiary certification	<u>27,340</u>	<u>34,243</u>	<u>42,498</u>
	<u>\$ 66,897</u>	<u>\$ 65,425</u>	<u>\$ 95,503</u>
<u>Financial assets – non-current</u>			
Mandatorily measured at FVTPL			
Listed market and emerging preference shares	\$ 14,133	\$ 15,041	\$ 15,041
Fund beneficiary certification	<u>14,314</u>	<u>15,239</u>	<u>27,879</u>
	<u>\$ 28,447</u>	<u>\$ 30,280</u>	<u>\$ 42,920</u>

(1) At the end of the reporting period, outstanding forward exchange contracts not under hedge accounting are as follows:

March 31, 2019

	<u>Currency</u>	<u>Maturity Date</u>	<u>Notional Amount (In Thousands)</u>
Buy Foreign exchange contracts	USD/NTD	2019.04.03	USD 830/NTD 25,366
		2019.04.25	USD 1,490/NTD 45,445
		2019.04.25	USD 1,390/NTD 42,356
		2019.06.05	USD 1,800/NTD 55,188
		2019.07.15	USD 2,500/NTD 76,635

The Group entered into forward exchange contracts to manage risk exposures due to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. Financial assets measured at FVTOCI

Investments in equity instruments

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Current</u>			
Domestic investment			
Listed ordinary shares	\$ -	\$ -	\$ 2,958
Listed preference shares	<u>6,300</u>	<u>-</u>	<u>7,270</u>
	<u>\$ 6,300</u>	<u>\$ -</u>	<u>\$ 10,228</u>
<u>Non-current</u>			
Domestic investment			
Listed and emerging market shares	\$ 88,756	\$ 98,473	\$ 62,048
Listed preference shares	150,117	149,552	74,261
Unlisted shares	<u>3,743</u>	<u>3,743</u>	<u>4,265</u>
	<u>\$ 242,616</u>	<u>\$ 251,768</u>	<u>\$ 140,574</u>

These long-term investments in ordinary and preferred shares are held for receiving profits, under medium to long-term business development strategic purposes. Accordingly, the Group's management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

9. FINANCIAL ASSETS AT AMORTIZED COST

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Current</u>			
Domestic investment			
Time deposits with original maturities more than three months(1)	\$ 753,930	\$ 307,809	\$ 375,974
Repurchase agreements collateralized by bonds (2)	<u>130,572</u>	<u>391,239</u>	-
	<u>\$ 884,502</u>	<u>\$ 699,048</u>	<u>\$ 375,974</u>
<u>Non-current</u>			
Domestic investment			
Pledged Time Deposit (3)	\$ 25,346	\$ 18,058	\$ 18,003
Barclays Bank Corporate Bond (USD) (4)	15,936	15,807	-
PCA Life Assurance Co., Ltd. Corporate Bond (USD) (5)	31,434	31,179	-
AT&T Corporate Bond (USD) (6)	16,715	16,580	-
Yuanta Securities Asia Financial Services Limited 2018 Non-secured USD-denominated Private Fixed Rate Notes (7)	<u>-</u>	<u>-</u>	<u>61,640</u>
	<u>\$ 89,431</u>	<u>\$ 81,624</u>	<u>\$ 79,643</u>

- (1) As of March 31, 2020, and December 31 and March 31, 2019, the annual interest rate of time deposit over 3 months portion is 0.77%~2.10%, 0.88%~2.33% and 1.01%~3.10%, respectively.
- (2) As of March 31, 2020 and December 31, 2019, the market interest rate of repurchase bond over 3 months portion is 2.00%~2.10% and 2.70%~2.90%, respectively.
- (3) Please refer to Note 27 for more details on financial assets at amortized cost under pledge.
- (4) The group purchased Barclays Bank Corporate Bond (USD) by USD 527 thousand, with a coupon rate of 4.836%, in August, 2019.
- (5) The group purchased PCA Life Assurance Co., Ltd. Corporate Bond (USD) by USD 1,040 thousand, with a coupon rate of 4.875%, in August, 2019.
- (6) The group purchased AT&T Corporate Bond (USD) by USD 553 thousand, with a coupon rate of 4.50%, in November, 2019.
- (7) The group purchased Yuanta Securities Asia Financial Services Limited issued 5-year Non-secured Fixed Rate Notes, with the face value of USD 2,000 thousand and a coupon rate of 4.10%, on August, 2018, and then selling all bonds by 64,954 thousand, for adjustment for the portion of the investment, 3,745 thousand recognized as net profit upon derecognition of financial assets measured at amortized cost, in August, 2019.

10. NOTES, TRADE RECEIVABLE AND OVERDUE RECEIVABLES

	March 31, 2020	December 31, 2019	March 31, 2019
Measured at amortized cost			
Notes receivable	\$ 279,764	\$ 279,128	\$ 152,504
Trade receivable	1,833,531	1,769,673	1,817,023
Overdue receivables	20,816	20,816	20,365
Deduct: Allowance for bad debts	<u>(36,026)</u>	<u>(35,510)</u>	<u>(47,236)</u>
	<u>\$ 2,098,085</u>	<u>\$ 2,034,107</u>	<u>\$ 1,942,656</u>

The average credit period of sales of goods of the Group was 60-90 days, and no interest was charged on trade receivable.

In order to minimize credit risk, the Group's management has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, the Group reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate allowance is made for possible

irrecoverable amounts. In this regard, the Group's management believes the Group's credit risk was significantly reduced.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses of trade receivable on durable are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position and past experience of receivable, and the change in global and regional economic conditions of uncollectible accounts, deciding the rate of the expected credit losses by the level of credit limits of customers and actual conditions, based on the degree of doubtful accounts triggered by customers of different industries.

The Group writes off an account receivable when there is information indicating that the respective debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery of the receivable. For accounts receivable that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profits or losses.

The following table details the loss allowance of trade receivable:

March 31, 2020

	<u>Not Past Due</u>	<u>1-30 Days Past Due</u>	<u>31-60 Days Past Due</u>	<u>61-90 Days Past Due</u>	<u>More Than 90 Days Past Due</u>	<u>Total</u>
Gross carrying amount	\$ 2,096,480	\$ 4,394	\$ 2,509	\$ 7,205	\$ 23,523	\$ 2,134,111
Loss allowance (Lifetime ECLs)	(5,632)	(1,823)	(1,143)	(3,905)	(23,523)	(36,026)
Amortized cost	<u>\$ 2,090,848</u>	<u>\$ 2,571</u>	<u>\$ 1,366</u>	<u>\$ 3,300</u>	<u>\$ -</u>	<u>\$ 2,098,085</u>

December 31, 2019

	<u>Not Past Due</u>	<u>1-30 Days Past Due</u>	<u>31-60 Days Past Due</u>	<u>61-90 Days Past Due</u>	<u>More Than 90 Days Past Due</u>	<u>Total</u>
Gross carrying amount	\$ 1,992,952	\$ 4,757	\$ 12,731	\$ 696	\$ 58,481	\$ 2,069,617
Loss allowance (Lifetime ECLs)	(3,903)	(1,879)	(5,400)	(347)	(23,981)	(35,510)
Amortized cost	<u>\$ 1,989,049</u>	<u>\$ 2,878</u>	<u>\$ 7,331</u>	<u>\$ 349</u>	<u>\$ 34,500</u>	<u>\$ 2,034,107</u>

March 31, 2019

	<u>Not Past Due</u>	<u>1-30 Days Past Due</u>	<u>31-60 Days Past Due</u>	<u>61-90 Days Past Due</u>	<u>More Than 90 Days Past Due</u>	<u>Total</u>
Gross carrying amount	\$ 1,904,948	\$ 12,204	\$ 45,922	\$ 3,287	\$ 23,531	\$ 1,989,892
Loss allowance (Lifetime ECLs)	(4,833)	(2,894)	(14,765)	(1,213)	(23,531)	(47,236)
Amortized cost	<u>\$ 1,900,115</u>	<u>\$ 9,310</u>	<u>\$ 31,157</u>	<u>\$ 2,074</u>	<u>\$ -</u>	<u>\$ 1,942,656</u>

The following table details information about the change in the loss allowance of trade receivable:

	<u>For the Three Months Ended March 31, 2020</u>	<u>For the Three Months Ended March 31, 2019</u>
Balance at January 1	\$ 35,510	\$ 41,411
Add: Net remeasurement of loss allowance	<u>516</u>	<u>5,825</u>
Balance at March 31	<u>\$ 36,026</u>	<u>\$ 47,236</u>

11. INVENTORIES

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Raw materials	\$ 3,446	\$ 3,314	\$ 4,273
Work in process	2,423	1,289	4,208
Finished goods	239	3,091	268
Commodities	<u>1,125,751</u>	<u>1,311,841</u>	<u>796,537</u>
	<u>\$ 1,131,859</u>	<u>\$ 1,319,535</u>	<u>\$ 805,286</u>

Cost of goods sold for inventories in the amount of NT\$2,295,936 thousand and NT\$1,882,890 thousand, respectively, for the three months ended March 31, 2020 and 2019. The cost of goods sold included inventory write-downs of \$7,997 thousand and reversals of inventory write-downs of \$19,937 thousand, for the three months ended March 31, 2020 and 2019. The increase in net realizable value of inventories is recognized by the realized price losses of commodities.

12. SUBSIDIARIES

(1) Subsidiaries included in the consolidated financial statements

The consolidated entities were as follows:

Investor	Investee	Nature of Activities	Proportion of Ownership (%)			Re-mark
			March 31, 2020	December 31, 2019	March 31, 2019	
The Company	Zotech technology Co., Ltd.	Manufacturing for computer equipment	85.37%	85.37%	85.37%	A,B
	Zerone Win Investment Co., Ltd.	Investment	100.00%	100.00%	100.00%	A,B
	Asiaone Holdings Ltd.	Holding company	100.00%	100.00%	-	A, B, C
Zerone Win Investment Co., Ltd.	WingWill International Co., Ltd.	Services of Cloud & information software	70.00%	70.00%	70.00%	A,B
	PetaCom technology Co., Ltd.	Services of distribution of information product	100.00%	100.00%	100.00%	A,B
Asiaone Holdings Ltd.	Techone (Shanghai)Co., Ltd.	Services of Network Technology	70.00%	-	-	A, B, D

A. These are not significant subsidiaries.

B. The financial statements haven't been reviewed by CPAs, beside the management personnel of the Group considers no material influence as the financial statements of the above subsidiaries haven't been reviewed by CPAs.

C. It was established in September, 2019.

D. It was established in January, 2020.

(2) Subsidiaries excluded from the consolidated financial statements : None.

13. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2020	December 31, 2019	March 31, 2019
Land	\$ 234,892	\$ 234,892	\$ 234,892
Buildings	56,064	56,519	57,880
Machinery equipment	-	-	14
Office equipment	9,468	11,021	11,971
Delivery equipment	1,352	1,474	1,844
Other equipment	9,998	10,506	7,105
	<u>\$ 311,774</u>	<u>\$ 314,412</u>	<u>\$ 313,706</u>

Except for depreciation recognized, property, plant and equipment haven't been increased, disposed and impaired for the three months ended March 31, 2020 and 2019.

Depreciation expenses were depreciated on a straight-line basis over the estimated useful life of the asset:

Buildings	7-50 Years
Machinery equipment	3 Years
Office equipment	3-5 Years
Delivery equipment	5 Years
Other equipment	2-3 Years

Property, plant and equipment used by the Group and pledged as collateral for bank borrowings are set out in Note 27.

14. LEASE ARRANGEMENTS

(1) Right-of-use assets

	March 31, 2020	December 31, 2019	March 31, 2019
Carrying amounts of right-of-use assets			
Buildings	\$ 6,070	\$ 7,758	\$ 6,536
Office equipment	494	545	694
	<u>\$ 6,564</u>	<u>\$ 8,303</u>	<u>\$ 7,230</u>
	For the Three Months Ended March 31, 2020		For the Three Months Ended March 31, 2019
Additions to right-of-use assets	<u>\$ -</u>		<u>\$ 2,056</u>
Depreciation charge for right-of-use assets			
Buildings		1,637	1,191
Office equipment		50	52
		<u>\$ 1,687</u>	<u>\$ 1,243</u>

(2) Lease liabilities

	March 31, 2020	December 31, 2019	March 31, 2019
Carrying amounts of lease liabilities			
Current	\$ 3,550	\$ 4,553	\$ 4,893
Non-current	\$ 3,065	\$ 3,803	\$ 2,369

Range of discount rate for lease liabilities was as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Buildings	1.20%	1.20%	1.20%
Office equipment	1.20%	1.20%	1.20%

(3) Other lease information

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Expenses relating to short-term leases	<u>\$ 61</u>	<u>\$ 113</u>
Expenses relating to low-value asset leases	<u>\$ 16</u>	<u>\$ 9</u>
Total cash (outflow) for leases	<u>(\$ 1,787)</u>	<u>(\$ 1,317)</u>

15. SHORT-TERM LOANS

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Guaranteed Loan</u>			
—Line of credit loans	<u>\$ 251,000</u>	<u>\$ 150,000</u>	<u>\$ -</u>

Interest rate of bank revolving loans is 0.85%~1.00% and 0.94% on March 31, 2020 and December 31, 2019.

16. OTHER PAYABLE

	March 31, 2020	December 31, 2019	March 31, 2019
Salaries and bonuses payable	\$ 38,186	\$ 83,057	\$ 33,385
Compensation of employees, remuneration of directors and supervisors payable	35,910	28,379	27,383
Others	<u>403,469</u>	<u>269,982</u>	<u>76,907</u>
	<u>\$ 477,565</u>	<u>\$ 381,418</u>	<u>\$ 137,675</u>

17. BOND PAYABLE

On May 19, 2014, the Group issued no any interest unsecured bonds (the second tranche). The bonds had an aggregate face value of \$500,000 thousand, with each unit having a face value of NT\$100 thousand, and the offering price was \$100.20% of the face value, and its conversion period is 5 years from June 20, 2014 to May 9, 2019. The conversion price was \$20 per share on issuance date.

Within the period between one month after the issuance date and 40 days before the last convertible date, if the closing price of ordinary shares of the Group on the TWSE for a period of 30 consecutive trading days before redemption has been at least 30% of the conversion price in effect on each such trading day, or in the event that the principal amount of the bonds originally outstanding is 10 % lower than the issued amount of the bonds, the Group may redeem all bonds at face value by cash.

The convertible bonds issued over 3 years, the holder could ask the Group to redeem bonds at face value by cash.

The convertible bonds contain two components: The host liability instrument and the conversion option derivative instrument. The effective interest rate of the host liability instrument on initial recognition was 2.0618% per annum, and the conversion option derivative instrument was accounted as paid-in capital –option.

Balance on January 1, 2019, liability components	\$ 5,085
Interest (2.0618%)	15
Convertible bonds changed into ordinary shares	(<u>5,100</u>)
Balance on March 31, 2019, liability components	<u>\$ -</u>

18. RETIREMENT BENEFIT PLANS

For the three months ended March 31, 2020 and 2019, the Group's pension costs under the defined benefit plan were made payment \$104 and \$131 thousand, respectively, decided by actuarial pension costs rate on December 31, 2019, and 2018.

19. EQUITY

(1) Ordinary Shares

	March 31, 2020	December 31, 2019	March 31, 2019
Shares authorized (in thousands of shares)	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>
Authorized capital	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>
Shares issued and fully paid (in thousands of shares)	<u>124,846</u>	<u>124,635</u>	<u>123,309</u>
Issued capital	<u>\$ 1,248,462</u>	<u>\$ 1,246,352</u>	<u>\$ 1,233,092</u>

The change in share capital is mainly due to bonds payable that changes into ordinary shares, employee stock options exercised, and restricted stock awards issued.

(2)Capital Surplus

	March 31, 2020	December 31, 2019	March 31, 2019
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (A)</u>			
Premium on shares issued above par value	\$ 410,544	\$ 408,165	\$ 402,463
Treasury stock transactions	25,343	25,343	25,343
<u>Only be used to offset a deficit (B)</u>			
From shares of changes in equities of subsidiaries	2,481	2,481	2,481
Invalid employees stock options	300	300	300
<u>May not be used for any purpose</u>			
Restricted stock awards	8,276	8,156	-
Employees stock options	<u>26,301</u>	<u>25,691</u>	<u>20,830</u>
	<u>\$ 473,245</u>	<u>\$ 470,136</u>	<u>\$ 451,417</u>

A. Such capital surplus may be used to offset a deficit; in addition, when the Group has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Group's paid-in capital surplus and once a year).

B. Such capital surplus arises from the effects of changes in ownership interests in subsidiaries resulting from equity transactions other than actual disposals or acquisitions or from changes in capital surplus of subsidiaries accounted for using the equity method.

(3)Retained earnings and dividend policy

Under the dividends policy as set forth in the Articles of Incorporation, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors in Note 20-6.

Distribution of earnings shall be made preferably by way of surplus cash dividend, according to future capital budget plan, and operating fund requirements. The Group considers its influences on diluted earning per shares and return on equity, and the ratio for cash dividend shall not below 10% of the total distribution.

The appropriation for legal capital reserve shall be made until the reserve equals the Group's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash for the portion in excess of 25% of the paid-in capital if the Group incurs no loss.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Group shall appropriate or reverse to a special reserve.

The appropriations of 2019 and 2018 earnings have been approved by ZOTC's Board of Directors in its meeting held on February 26, 2020 and shareholders' meeting on June 13, 2019, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share(NT\$)	
	For Fiscal Year 2019	For Fiscal Year 2018	For Fiscal Year 2019	For Fiscal Year 2018
Legal capital reserve	\$ 35,131	\$ 25,294		
Special reserve recognized(reversed)	(16,844)	1,343		
Cash dividends	249,574	184,603	\$ 2.0	\$ 1.5

The appropriations of earnings for 2019 are to be presented for approval in the shareholders' meeting to be held on June 10, 2020(expected).

(4)Other equity

A. Exchange differences on translating the financial statements of foreign operations

	<u>For the Three Months Ended March 31, 2020</u>	<u>For the Three Months Ended March 31, 2019</u>
Balance at January 1	\$ -	\$ -
In respect of the current period		
Exchange differences on translating the financial statements of foreign operations	(<u>170</u>)	<u>-</u>
Balance at March 31	(<u>\$ 170</u>)	<u>\$ -</u>

B. Unrealized Gain/Loss from financial assets measured at FVTOCI

	<u>For the Three Months Ended March 31, 2020</u>	<u>For the Three Months Ended March 31, 2019</u>
Balance at January 1	\$ 17,865	(\$ 16,844)
In respect of the current period		
Unrealized profits and losses – equity instruments	(21,930)	6,708
Cumulative gain (loss) of equity instruments transferred to retained earnings due to disposal	<u>-</u>	(<u>662</u>)
Balance at March 31	(<u>\$ 4,065</u>)	(<u>\$ 10,798</u>)

C. Unearned employee benefit

In the shareholders' meetings held on June 11, 2018, the shareholders approved the issuance of restricted stock awards. Refer to Note 23 for the information of relevant explanation.

	<u>For the Three Months Ended March 31, 2020</u>	<u>For the Three Months Ended March 31, 2019</u>
Balance, beginning of period	(\$ 10,389)	\$ -
Share-based payment expenses recognized	<u>1,272</u>	<u>-</u>
Balance, end of period	(<u>\$ 9,117</u>)	<u>\$ -</u>

20. NET INCOME

(1)Other income

	<u>For the Three Months Ended March 31, 2020</u>	<u>For the Three Months Ended March 31, 2019</u>
Interest income	\$ 6,927	\$ 4,487
Others	<u>58</u>	<u>1,129</u>
	<u>\$ 6,985</u>	<u>\$ 5,616</u>

(2)Other gains and losses

	<u>For the Three Months Ended March 31, 2020</u>	<u>For the Three Months Ended March 31, 2019</u>
Net foreign exchange Profit(loss)	(\$ 2,960)	\$ 136
Net gain/(loss) arising on financial assets measured at FVTPL	(3,604)	3,739
Gain on disposal of property, plant and equipment	<u>40</u>	<u>-</u>
	(<u>\$ 6,524</u>)	<u>\$ 3,875</u>

(3) Financial costs

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Interests on bank borrowings	\$ 1,049	\$ 289
Interests on lease liabilities	21	15
Interests on convertible bonds	-	15
Total	<u>\$ 1,070</u>	<u>\$ 319</u>

(4) Depreciation & amortization

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Property, plant and equipment	\$ 4,031	\$ 3,334
Right-of-use assets	1,687	1,243
Intangible assets	228	181
	<u>\$ 5,946</u>	<u>\$ 4,758</u>

An analysis of depreciation by function

Operating costs	\$ -	\$ 122
Operating expenses	5,718	4,455
	<u>\$ 5,718</u>	<u>\$ 4,577</u>

An analysis of amortization by function

Operating expenses	<u>\$ 228</u>	<u>\$ 181</u>
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(5) Employee benefits expense

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Post-employment benefits		
Defined contribution plans	\$ 2,500	\$ 2,330
Defined benefit plans (Note 18)	104	131
	<u>2,604</u>	<u>2,461</u>
Share-Based Payment		
Equity Swap	<u>3,238</u>	<u>2,930</u>
Other employee benefits	<u>80,780</u>	<u>75,101</u>
Total employee benefits expense	<u>\$ 86,622</u>	<u>\$ 80,492</u>

An analysis of employee benefits expense
by function

Operating costs	\$ 931	\$ 1,028
Operating expenses	85,691	79,464
	<u>\$ 86,622</u>	<u>\$ 80,492</u>

(6) Employees' compensation and remuneration of directors

The Group shall allocate compensation to the employees and directors of the Group not less than 1%~15% and not more than 3% of annual profits during the period, respectively, and the estimate of employees' compensation and remuneration of directors for the three months ended March 31, 2020 and 2019 is as follows:

Estimate Rate

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Employees' compensation	4.00%	4.00%
Remuneration of directors	2.00%	2.00%

<u>Amount</u>	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Employees' compensation	<u>\$ 5,021</u>	<u>\$ 4,568</u>
Remuneration of directors	<u>\$ 2,510</u>	<u>\$ 2,284</u>

If changes in the very amount after the end of the reporting period, it will be booked next year, based on accounting estimate regulations.

The employees' compensation and the remuneration of directors for the years ended December 31, 2019 and 2018, which were approved by the Company's board of directors on February 26, 2020 and February 27, 2019, respectively, are as follows:

	2019		2018	
	Cash	Stock	Cash	Stock
Employees' compensation	\$ 18,911	\$ -	\$ 13,425	\$ -
Remuneration of directors	9,456	-	6,712	-

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2019 and 2018.

Information on the employees' compensation and remuneration of directors resolved by the Group's board of directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

21. INCOME TAXES

(1) Income tax recognized in profit or loss

Major components of income tax expense are as follows:

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Current tax		
In respect of the current period	\$ 28,497	\$ 18,577
Deferred tax		
In respect of the current period	(<u>3,799</u>)	<u>2,588</u>
Income tax expense recognized in profit or loss	<u>\$ 24,698</u>	<u>\$ 21,165</u>

(3) Income tax assessment

The Company and subsidiaries' income tax returns have been assessed by the Tax Authority as follows:

Co. Name	Year of Assessment
The company	2018
Zotech technology Co., Ltd.	2016
Zerone Win Investment Co., Ltd.	2018
WingWill International Co., Ltd.	2018
PetaCom technology Co., Ltd.	2018

22. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share are as follows:

Net Profit for the Period

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Net Profit for the Period	\$ 92,869	\$ 86,200
Effect of potentially dilutive ordinary shares:		
Convertible bonds	-	<u>15</u>
Earnings in computation of diluted earnings per share	<u>\$ 92,869</u>	<u>\$ 86,215</u>

Shares

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Weighted average number of ordinary shares outstanding for basic earnings per share	124,025	123,011
Effect of potentially dilutive ordinary shares:		
Convertible bonds	-	223
Employees' compensation	572	567
Employee stock options	1,973	762
Restricted stock awards	378	-
Weighted average number of ordinary shares outstanding for diluted earnings per share	<u>126,948</u>	<u>124,563</u>

If the Group offered to settle the compensation or bonuses paid to employees in cash or shares, the Group assumed that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

The exercise price of the third and fourth issued employee stock options is higher than average market price of shares for the three months ended March 31, 2019. Owing to anti-diluted, it doesn't be calculated in each diluted earnings per share.

23. SHARE-BASED PAYMENT ARRANGEMENTS

(1) Employee Share Option Plan

Qualified employees of the Company and its subsidiaries were granted 1,000, 1,860, 2,000 and 2,000 options in August 2015, September 2016, January 2018 and September 2018. Each option entitles the holder with the right to subscribe for one thousand ordinary shares of the Company. The options granted are valid for 6 years and exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares at the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

Information on employee share options is as follows:

	For the Three Months Ended March 31, 2020		For the Three Months Ended March 31, 2019	
	Number of Options (In Thousands of Units)	Weighted Average Exercise Price (NT\$)	Number of Options (In Thousands of Units)	Weighted Average Exercise Price (NT\$)
Employee Stock options				
Balance at January 1	5,653	\$ 17.18	6,468	\$ 17.68
Options exercised	(223)	14.59	(75)	13.33
Outstanding options, at March 31	<u>5,430</u>	17.28	<u>6,393</u>	17.74
Options exercisable, at March 31	<u>1,443</u>		<u>837</u>	

Information on outstanding options at the end of reporting period is as follows:

For the Three Months Ended March 31, 2020		For the Three Months Ended December 31, 2019		For the Three Months Ended March 31, 2019	
Range of Exercise Price (NT\$)	Weighted- Over-Age Remaining Contractual Life (Years)	Range of Exercise Price (NT\$)	Weighted- Over-Age Remaining Contractual Life (Years)	Range of Exercise Price (NT\$)	Weighted- Over-Age Remaining Contractual Life (Years)
\$ 12.40 (Note)	1.42	\$ 12.40 (Note)	1.67	\$ 13.10 (Note)	2.42
14.20 (Note)	2.43	14.20 (Note)	2.68	15.00 (Note)	3.43
17.80 (Note)	3.76	17.80 (Note)	4.01	18.80 (Note)	4.76
19.50 (Note)	4.42	19.50 (Note)	4.67	20.65	5.42

Note: The Issued price will be adjusted by methods of issuance.

The Group adopts BOPM and Black-Scholes price model to evaluate inputs of stock options in September 2018, January 2018, September 2016 and August 2015 as follows:

	September 2018	January 2018	September 2016	August 2015
Securities price of the vested date	20.65 Dollars	19.85 Dollars	16.95 Dollars	15.65 Dollars
Exercised price	20.65 Dollars	19.85 Dollars	16.95 Dollars	15.65 Dollars
Foreseeable volatility rate	32.96%	33.81%	38.26%	39.14%~40.47%
Duration	6 Years	6 Years	6 Years	4~5 Years
Foreseeable dividend rate	0%	0%	0%	0%
No risk rates	0.72%	0.74%	0.56%	0.77%~0.87%

The compensation cost recognized were \$1,966 thousand and \$2,930 thousand for the three months ended March 31, 2020 and 2019, respectively.

(2) Restricted stock awards

The shareholders meeting of the company, on June 11, 2018, resolved to issue restricted stock awards amounting to NT\$7,000 thousand, consisting of 700 thousand shares, respectively, par value in NT\$10, the subscription price is NT\$0 (The issue price is NT\$ 0), and authorized the Board to decide the issue price at the issuance date. The Board resolved to issue NT\$7,000 thousand, with total share number of 700 thousand shares, on April 30, 2019 and the record date of issuance is June 13, 2019.

An employee who remains employed at the company after the period as follows has elapsed from the time of RSA and who personal performance have met with the criteria listing, will be eligible for vesting of an installment of the shares.

- A. An employee who remains employed at the company after 1 year has elapsed from the time of RSA, and who personal performance have met with the criteria listing of 75 scores and above, will be eligible for vesting of an installment of 25% of the shares.
- B. An employee who remains employed at the company after 2 year has elapsed from the time of RSA, and who personal performance have met with the criteria listing of 75 scores and above, will be eligible for vesting of an installment of 25% of the shares.
- C. An employee who remains employed at the company after 3 year has elapsed from the time of RSA, and who personal performance have met with the criteria listing of 75 scores and above, will be eligible for vesting of an installment of 25% of the shares.
- D. An employee who remains employed at the company after 4 year has elapsed from the time of RSA, and who personal performance have met with the criteria listing of 75 scores and above, will be eligible for vesting of an installment of 25% of the shares.

After employees received the vested shares from the Company, it will redeem and cancel the issued restricted employee shares as employees breach the labor contract and working regulations, for the restricted employee new shares that don't meet the vesting conditions.

When employees fail to meet the vesting conditions of restricted employee new shares as redeemed by the Company without charge will be cancelled, based on the relevant regulations.

Compensation costs by issuance of restricted stock awards recognized were NT\$1,272 thousand for the three months ended March 31, 2020, respectively. As of March 31, 2020, unearned employee benefit totaled NT\$9,117 thousand, accounted for as the decrease in other equity.

24. CAPITAL RISK MANAGEMENT

The Group engages as a distributor of software, without any plans of imposed capital requirements at present or in the future. The Group manages its capital to ensure requirements of operating funds and dividend expenses, based on growth and development of scale of enterprise and prospective of the industry. The Group periodically reviews the policy of capital risk management, for the purpose of seeking a steady and conservative policy.

The capital structure of the Group consists of net debt and equity (comprising share capital, capital reserves, retained earnings and other equity).

The Group is not subject to any externally imposed capital requirements.

25. FINANCIAL INSTRUMENTS

(1) Information about fair value of financial instruments that are not measured at fair value

Except as detailed in the following table, the management believes the carrying amounts of financial liabilities not measured at fair value recognized in the consolidated financial statements approximate or cannot be measured their fair values:

	March 31, 2020		December 31, 2019		March 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial Assets</u>						
Financial assets at amortized cost						
— Domestic corporate bonds	\$ -	\$ -	\$ -	\$ -	\$61,640	\$62,350
— Foreign corporate bonds	64,085	61,010	63,566	64,992	-	-

(2) Information about fair value of financial assets measured at fair value on a recurring basis.

A. Fair value hierarchy

March 31, 2020

	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at FVTPL</u>				
Convertible bonds	\$ 39,557	\$ -	\$ -	\$ 39,557
Fund beneficiary certification	38,745	-	2,909	41,654
Domestic listed shares	14,133	-	-	14,133
Total	<u>\$ 92,435</u>	<u>\$ -</u>	<u>\$ 2,909</u>	<u>\$ 95,344</u>
<u>Financial assets measured at FVTOCI</u>				
Equity investments				
— Domestic listed shares and emerging market shares	\$ 234,735	\$ -	\$ 10,438	\$ 245,173
— Domestic Unlisted shares	-	-	3,743	3,743
Total	<u>\$ 234,735</u>	<u>\$ -</u>	<u>\$ 14,181</u>	<u>\$ 248,916</u>

December 31, 2019

	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at FVTPL</u>				
Convertible bonds	\$ 31,182	\$ -	\$ -	\$ 31,182
Domestic listed shares	15,041	-	-	15,041
Fund beneficiary certification	46,403	-	3,079	49,482
Total	<u>\$ 92,626</u>	<u>\$ -</u>	<u>\$ 3,079</u>	<u>\$ 95,705</u>
<u>Financial assets measured at FVTOCI</u>				
Equity investments				
— Domestic listed shares and emerging market shares	\$ 237,587	\$ -	\$ 10,438	\$ 248,025
— Domestic Unlisted shares	-	-	3,743	3,743
Total	<u>\$ 237,587</u>	<u>\$ -</u>	<u>\$ 14,181</u>	<u>\$ 251,768</u>

March 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets measured at FVTPL</u>				
Convertible bonds	\$ 51,127	\$ -	\$ -	\$ 51,127
Fund beneficiary certification	42,498	-	27,879	70,377
Domestic listed shares	15,041	-	-	15,041
Derivatives	-	1,878	-	1,878
Total	<u>\$ 108,666</u>	<u>\$ 1,878</u>	<u>\$ 27,879</u>	<u>\$ 138,423</u>

Financial assets measured at FVTOCI

Equity investments				
– Domestic listed shares and emerging market shares	\$ 137,696	\$ -	\$ 8,841	\$ 146,537
– Domestic Unlisted shares	-	-	4,265	4,265
	<u>\$ 137,696</u>	<u>\$ -</u>	<u>\$ 13,106</u>	<u>\$ 150,802</u>

There were no transfers between Level 1 and Level 2 for three months ended March 31, 2020 and 2019, respectively.

B. Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

Financial Instruments Valuation Techniques and Inputs

Derivatives - foreign exchange forward contracts Discounted cash flow.

Future cash flows are estimated based on observable forward exchange rates at the end of the year and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

C. Valuation techniques and inputs applied for Level 3 fair value Measurement

The market approach is used to arrive at their fair value, for which, the estimate and assumption regarding relevant information of expected present value of profits and losses calculated by held investments, in consideration of liquidity discount, with reference to the listed and emerging market companies and similar companies.

(3) Categories of financial instruments

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
<u>Financial assets</u>			
Measured at FVTPL			
Mandatorily measured at FVTPL	\$ 95,344	\$ 95,705	\$ 138,423
Financial assets measured at amortized cost (Note 1)	3,598,252	3,170,472	2,737,333
Financial assets measured at FVTOCI— Investments in equity instruments	248,916	251,768	150,802
<u>Financial liabilities</u>			
Measured at amortized cost (Note 2)	2,651,381	2,567,775	1,637,825

Note 1: The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, investments in debt instruments, notes receivable, trade receivable, other receivable and refundable deposits.

Note 2: The balances included financial liabilities measured at amortized cost, which comprise short-term loans, trade payable, other payable, and deposits received.

(4) Financial risk management objectives and policies

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk based on related protocols and internal control procedures. The Group's financial department measures the aforementioned risks based on the Group's risk appetite, and reports to the board of directors for carrying out relevant policies.

A. Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates.

(A) Foreign currency risk

The Group's purchases and investments are denominated in foreign currencies. Consequently, the Group is exposed to foreign currency risks. To protect against reductions in value of foreign currency denominated assets and the volatility of future cash flows caused by changes in foreign exchange rates, the Group utilizes derivative financial instruments, such as forward exchange contracts and options, for avoiding foreign currency risks.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities of non-functional currency calculated (including those eliminated on consolidation) at the end of the reporting period are set out in Note 29.

Sensitivity analysis

The Group's exchange rate exposure was in the exchange rate of U.S. dollars.

The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. If interest rates had been 5 % higher/lower, the Group's net profit for the three months ended March 31, 2020 and 2019 would increase/decrease by \$2,054 thousand and decrease/increase by \$4,970 thousand, respectively.

(B) Interest rate risk

The Group exposed to the risk of interest rate at fair value, since holding the fixed-rate loan, accessing the interest rate of the bank loan regularly, observing influences on profits or losses from fluctuation range of the interest rate, keeping contact with the bank based on the actual requirement, and acquiring the best interest rate of the loan.

The carrying amount of the Group's financial assets and financial liabilities with exposure to risks of interest rates at the end of the reporting period is as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Interest rate risks at fair value			
– Financial assets	\$ 1,274,857	\$ 874,635	\$ 547,921
– Financial liabilities	257,615	158,356	7,262
Interest rate risks at cash flows			
– Financial assets	213,887	231,807	234,525

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the three months ended March 31, 2020 and 2019 would increase/ decrease by \$267 thousand and \$293 thousand, respectively. Exposure is triggered by risks of cash flows of the Group's variable interest rates of deposits.

(C) Other price risk

The Group is exposed to equity price risks arising from equity investments of public offering securities and fund beneficiary certificates. Equity investments should be approved by the management, for controlling risks by holding different investment portfolios.

Sensitivity analysis

The following sensitivity analysis is based on risk exposure of equity prices at the end of the reporting period.

If equity prices had been 5% higher/lower, pre-tax profit for the years ended March 31, 2020 and 2019 would have increased/decreased by NT\$4,767 thousand and NT\$6,827 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL, and the other comprehensive income for the year ended March 31, 2020 and 2019 would have increased/decreased by NT\$12,446 thousand and NT\$7,540 thousand, respectively, as a result of [the changes in fair value of financial assets at FVTOCI.

B. Credit risk

A Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognized financial assets as stated in the condensed balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the financial department regularly.

To decrease a credit risk, the key management personnel of the Group is responsible for decision of rating criteria, credit limits approval, and other censor procedure, etc., in order to collect delinquent trade receivable. Otherwise, the group reviews each trade receivable to assure allowance of impairment losses of uncollectable bad debts, hence the key management personnel considers credit concentration risk of trade receivable is insignificant.

The credit concentration risk of the current fund is insignificant, since the Group only transacts with financial institutions with good rating.

Trade receivable consisted of many customers. Ongoing credit evaluation is performed on the financial condition of certain customer's trade receivable. If necessary, purchasing insurance for credit enhancing procedures is a must.

The Group's concentration of credit risk was mainly in the Group's five largest customers, which accounted for 43%, 33% and 41% of trade receivable, respectively, as of March 31, 2020, December 31, 2019 and March 31, 2019.

B. Liquidity risk

The Group manages and maintains sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises financing line of the banking facilities and ensures compliance with the terms of loan agreements.

Liquidity & interest rate risk table

The table below summarizes the due analysis of the maturity profile of the Group's non-derivative financial liabilities, enacted by contractual undiscounted payments of cash flow of financial liabilities, according to remaining contracts on the earliest date on which the Group may be required to pay, including principal and interest of cash flows.

The following tables detail the bank loans are listed on the earliest date on which the Group may be required to pay without considering the probability of the lending bank executing its rights; other non-derivative financial liabilities are listed at their contract repayment dates.

March 31, 2020

	Less than 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>			
No Interest-bearing liabilities	\$ 2,399,210	\$ -	\$ -
Lease liabilities	3,603	3,083	-
Fixed interest rate liabilities	<u>251,194</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,654,007</u>	<u>\$ 3,083</u>	<u>\$ -</u>

December 31, 2019

	Less than 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>			
No Interest-bearing liabilities	\$ 2,416,604	\$ -	\$ -
Fixed rate instruments	4,617	3,831	-
Fixed interest rate liabilities	<u>150,118</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,571,339</u>	<u>\$ 3,831</u>	<u>\$ -</u>

March 31, 2019

	Less than 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>			
No Interest-bearing liabilities	\$ 1,637,025	\$ -	\$ -
Lease liabilities	4,945	2,389	-
	<u>\$ 1,641,970</u>	<u>\$ 2,389</u>	<u>\$ -</u>

The operating fund of the Group are sufficient to meet cash flow demand; If the demand exists, it shall be short-term. Thus, bank loans within 1 year are the maximum amounts with available limit of credit. After considering the financial position of the Group, the management does not think the banks will execute their rights of requiring the Group to repay the bank loans.

As of March 31, 2020, December 31, 2019 and March 31, 2019, the Group's unused short-term credit of limit of the bank were 969,000 thousand, 920,000 thousand and 1,070,000 thousand, respectively.

The Group's cash and cash equivalents are sufficient to meet the demand of operating demands; the Group does not apply for the overdraft limit from the bank.

26. RELATED PARTIES TRANSACTIONS

Transactions and balances apply for the profits and losses, revenues and expenses between the Group and its subsidiaries, which were related parties of the Group, had been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed as follows.

Compensation of key management personnel

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Short-term employee benefits	<u>\$ 28,915</u>	<u>\$ 24,229</u>

Salaries of the boarders and other key management personnel are decided by personal performance and economic market trend through the remuneration committee.

27. PLEDGED ASSETS

The following assets were provided as collateral for bank or securities firms borrowings, tariff guarantee for imported commodities:

	March 31, 2020	December 31, 2019	March 31, 2019
Property, plant and equipment, Net	\$ 208,662	\$ 209,009	\$ 210,050
Pledged Time Deposits(Financial assets at amortized cost – non-current)	<u>25,346</u>	<u>18,058</u>	<u>18,003</u>
	<u>\$ 234,008</u>	<u>\$ 227,067</u>	<u>\$ 228,053</u>

28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. As of March 31, 2020, the group opens NT 87,000 thousand of cashier order for payment guaranteed for Microsoft Taiwan Corporation.

b. As of March 31, 2020, the group opens NT 50,000 thousand of cashier order for payment guaranteed for Microsoft Regional Sales Corporation.

29. FOREIGN-CURRENCY-DEMONINATED ASSETS AND LIABILITIES THAT HAVE SIGNIFICANT INFLUENCE

The Group's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies of the entities in the Group and the related exchange rates between foreign currencies and respective functional currencies were as follows:

March 31, 2020

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 43,075	30.225 (USD:NTD)	\$ <u>1,301,942</u>
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	44,434	30.225 (USD:NTD)	\$ <u>1,343,018</u>

December 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 31,858	29.980 (USD:NTD)	\$ <u>955,103</u>
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	45,703	29.980 (USD:NTD)	\$ <u>1,370,176</u>

March 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 26,012	30.82 (USD:NTD)	\$ <u>801,690</u>
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	29,237	30.82 (USD:NTD)	\$ <u>901,084</u>

The significant realized and unrealized foreign exchange gains (losses) were as follows:

	For the Three Months Ended March 31, 2020		For the Three Months Ended March 31, 2019	
	Exchange Rate	Net Foreign exchange profit(loss)	Exchange Rate	Net Foreign exchange profit(loss)
Foreign currencies	(USD:NTD) 30.106	(\$ <u>2,960</u>)	(USD:NTD) 30.82	\$ <u>136</u>
USD				

30. SEPARATELY DISCLOSED ITEMS

Information about (1) significant transactions and (2) investees:

- A. Financing provided to others (Table 1)
- B. Endorsements/guarantees provided (None)
- C. Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (Table 2)
- D. Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (None)
- E. Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None)
- F. Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)
- G. Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (None)
- H. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (None)
- I. Trading in derivative instruments (None)
- J. Other: Intercompany relationships and significant intercompany transactions (Table 4)
- K. Information on investees (Table 3)

(3) Information on investment in Mainland China : None.

- A. Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the year, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 5)
- B. Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: None.

(4) Information of major shareholder: List of all shareholders with ownership of 5 percent or greater showing the names and the number of shares and percentage of ownership held by each shareholder (Table 6)

31. SEGMENT INFORMATION

The management monitors the operating results focusing on the types of products and services acquired or provided of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The department of the Group's business division of brands distribution or others shall be reported.

(1) Segments revenue & operating results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segments:

	The business division of brands distribution	Other	Eliminations	Total
<u>January 1, 2020 to March 31, 2020</u>				
Revenues from external customers	\$ 2,505,956	\$ 25,851	\$ -	\$ 2,531,807
Inter-segment revenues	-	5,525	(5,525)	-
Segment revenues	<u>\$ 2,505,956</u>	<u>\$ 31,376</u>	<u>(\$ 5,525)</u>	<u>2,531,807</u>
Consolidated revenues				<u>\$ 2,531,807</u>
Segment profit (loss)	<u>\$ 156,602</u>	<u>(\$ 5,095)</u>	<u>\$ -</u>	\$ 151,507
General administration division costs and remuneration of directors				(34,491)
Other income				6,985
Other profit (loss)				(6,524)
Financial costs				(1,070)
Net income before tax				<u>\$ 116,407</u>
<u>January 1, 2019 to March 31, 2019</u>				
Revenues from external customers	\$ 2,080,191	\$ 17,289	\$ -	\$ 2,097,480
Inter-segment revenues	-	4,322	(4,322)	-
Segment revenues	<u>\$ 2,080,191</u>	<u>\$ 21,611</u>	<u>(\$ 4,322)</u>	<u>2,097,480</u>
Consolidated revenues				<u>\$ 2,097,480</u>
Segment profit (loss)	<u>\$ 136,556</u>	<u>(\$ 2,801)</u>	<u>\$ -</u>	\$ 133,755
General administration division costs and remuneration of directors				(36,240)
Other income				5,616
Other profit (loss)				3,875
Financial costs				(319)
Net income before tax				<u>\$ 106,687</u>

Segment profit represents the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, lease income, interest income, gains or losses on disposal of property, plant and equipment, gains or losses on disposal of financial instruments, exchange gains or losses, valuation gains or losses on financial instruments, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

(2) Total segment assets and liabilities

The assets and liabilities of the Group haven't been provided to the operating management personnel, hence valuation number of assets and liabilities shall not be recovered.

(3) Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations from its major products and services:

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
IT Infrastructure	\$ 745,404	\$ 581,080
Network & Information Security	1,181,875	1,155,942
Cloud Platform & Application	503,506	249,646
Big Data & Application	100,601	109,100
Other	421	1,712
	<u>\$ 2,531,807</u>	<u>\$ 2,097,480</u>

ZERONE TECHNOLOGY CO., LTD.AND SUBSIDIARIES
FINANCING PROVIDED TO OTHERS
FOR THREE MONTHS ENDED MARCH 31, 2020

Table 1

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

No. (Note 1)	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period (Note 2)	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing (Note 3)	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 4)	Aggregate Financing Limit (Note 5)	Note
													Item	Value			
0	The company	WingWill international Co., Ltd.	Other receivables from related parties	Yes	\$ 20,000	\$ 20,000	\$ 15,000	3%	2	\$ -	Operating Capital	\$ -	-	\$-	\$ 249,756	\$ 499,513	

Note 1 : The number column is organized as follows :

(1)Number 0 represents the issuer.

(2)The Counter-party is numbered from 1 in order.

Note 2 : Maximum Balance of financing provided to others for the Period.

Note 3 : Reference for the nature for financing provided to others.

(1)1:The borrower has business contact with the creditor.

(2)2:The borrower has short-term financing necessities.

Note 4 : For short-term financing necessities, the total amount available for lending purpose shall not exceed 10% of the net worth audited or reviewed by CPAs during the period.

Note 5 : The total amount available for lending purpose shall not exceed 20% of the company's net worth audited or reviewed by CPAs during the period.

ZERONE TECHNOLOGY CO., LTD.AND SUBSIDIARIES
MARKETABLE SECURITIES HELD
FOR THREE MONTHS ENDED MARCH 31, 2020
Table 2

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Holding Company Name	Type and Name of Marketable Securities (Note 1)	Relationship with the Holding Company	Financial Statement Account	March 31, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
The company	Beneficiary certifications							
	KGI Emerging Market Bond 1-5 ETF Fund	—	Financial assets at FVTPL — current	75,000	\$ 2,855	-	\$ 2,855	
	KGI Kaefer Fund	—	Financial assets at FVTPL — non-current	170,199	2,909	-	2,909	
	KGI Taiwan Multi-Asset Income Fund	—	Financial assets at FVTPL — non-current	1,198,020	11,405	-	11,405	
	Corporate bond							
	Giga Solar Materials Corporation — 2 Convertible Corporate Bonds	—	Financial assets at FVTPL — current	130 (Units)	12,480	-	12,480	
	China Airlines Ltd. — 6 Convertible Corporate Bonds	—	Financial assets at FVTPL — current	30 (Units)	2,966	-	2,966	
	Tong Ming Enterprise Co., Ltd — 1 Convertible Corporate Bonds	—	Financial assets at FVTPL — current	10 (Units)	992	-	992	
	Gemtek Technology Co., Ltd. — 5 Convertible Corporate Bonds	—	Financial assets at FVTPL — current	40 (Units)	4,100	-	4,100	
	Sigurd Microelectronics Corporation. — 3 Convertible Corporate Bonds	—	Financial assets at FVTPL — current	15 (Units)	1,597	-	1,597	
	Quang Viet Enterprise Co.,Ltd. — 1 Convertible Corporate Bonds	—	Financial assets at FVTPL — current	30 (Units)	2,955	-	2,955	
	Sheh Fung Screws Co., Ltd. — 1 Convertible Corporate Bonds	—	Financial assets at FVTPL — current	5 (Units)	540	-	540	
	Interactive Digital Technologies Inc. — 1 Convertible Corporate Bonds	—	Financial assets at FVTPL — current	10 (Units)	1,018	-	1,018	
	YFC-Boneagle Electric Co., Ltd. — 9 Convertible Corporate Bonds	—	Financial assets at FVTPL — current	30 (Units)	2,532	-	2,532	
	CSBC Corporation, Taiwan — 1 Convertible Corporate Bonds	—	Financial assets at FVTPL — current	50 (Units)	5,100	-	5,100	
	Yeashin Inter. Development Co., Ltd. — 7 Convertible Corporate Bonds	—	Financial assets at FVTPL — current	5 (Units)	527	-	527	
	QST International Corp. — 4 Convertible Corporate Bonds	—	Financial assets at FVTPL — current	50 (Units)	4,750	-	4,750	

(Continued)

Holding Company Name	Type and Name of Marketable Securities(Note 1)	Relationship with the Holding Company	Financial Statement Account	March 31, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
The company	Barclays Bank Corporate Bond (USD)	—	Financial assets at amortized cost — non-current	5 (Units)	\$ 15,936	-	\$ 16,143	
	PCA Life Assurance Co., Ltd. Corporate Bond (USD)	—	Financial assets at amortized cost — non-current	10 (Units)	31,434	-	29,197	
	AT&T Corporate Bond (USD)	—	Financial assets at amortized cost — non-current	5 (Units)	16,715	-	15,670	
	Securities							
	Cathay Financial Holdings Preferred Stock A	—	Financial assets at FVTPL — non-current	166,000	10,093	-	10,093	
	Union Bank of Taiwan Preferred Stock A	—	Financial assets at FVTPL — non-current	80,000	4,040	-	4,040	
	QST International Corp. Preferred Stock A	—	Financial assets at FVTOCI — current	150,000	6,300	1.50	6,300	
	K Way Information Corp.	The supervisor of the company	Financial assets at FVTOCI — non-current	490,000	12,348	1.60	12,348	
	China Electric Mfg. Corp.	—	Financial assets at FVTOCI — non-current	2,988,000	33,466	0.83	33,466	
	Asix Electronics Corp.	—	Financial assets at FVTOCI — non-current	90,074	2,504	0.17	2,504	
	Promaster Technology Corp.	—	Financial assets at FVTOCI — non-current	1,111,563	10,438	2.72	10,438	
	Unex Technology Corp.	—	Financial assets at FVTOCI — non-current	175,000	3,743	1.68	3,743	
	Cathay Financial Holding Co., Ltd. Preferred Stock A	—	Financial assets at FVTOCI — non-current	134,000	8,147	-	8,147	
	Union Bank of Taiwan Preferred Stock A	—	Financial assets at FVTOCI — non-current	70,000	3,535	-	3,535	
	Fubon Financial Holding Co., Ltd. Preferred Shares B	—	Financial assets at FVTOCI — non-current	400,000	24,320	-	24,320	
	Taishin Financial Holding Co., Ltd. Preferred Stock E	—	Financial assets at FVTOCI — non-current	240,000	12,456	-	12,456	
	CTBC Financial Holding Co., Ltd. Preferred Shares B	—	Financial assets at FVTOCI — non-current	90,000	5,760	-	5,760	
	Cathay Financial Holding Co., Ltd. Preferred Stock B	—	Financial assets at FVTOCI — non-current	230,000	14,053	-	14,053	
	Kwong Lung Enterprise Co., Ltd. Preferred Stock A	—	Financial assets at FVTOCI — non-current	270,000	13,662	-	13,662	

(Continued)

Holding Company Name	Type and Name of Marketable Securities(Note 1)	Relationship with the Holding Company	Financial Statement Account	March 31, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
The company	WPG Holdings Limited. Preferred Stock A	—	Financial assets at FVTOCI – non-current	780,000	\$ 36,621	-	\$ 36,621	
	United orthopedic corporation preferred stock A	—	Financial assets at FVTOCI – non-current	200,000	8,760	-	8,760	
	Miiicasa Holdings (Cayman) Inc.	—	Financial assets at FVTOCI – non-current	2,500,000	-	3.45	-	
	Duofu Co., Ltd.	—	Financial assets at FVTOCI – non-current	10,000	-	0.27	-	
	Jotangi Technology Co., Ltd.	—	Financial assets at FVTOCI – non-current	796,250	-	16.94	-	
	Ijoing, Inc.	—	Financial assets at FVTOCI – non-current	500,000	-	10.00	-	
Zerone Win Investment Co., Ltd.	Securities							
	WPG Holdings Limited. Preferred Stock A	—	Financial assets at FVTOCI – non-current	240,000	11,268	-	11,268	
	Shin Kong Financial Holding Co., Ltd. Preferred Stock A	—	Financial assets at FVTOCI – non-current	50,000	2,145	-	2,145	
	Tatung System Technologies Inc.	—	Financial assets at FVTOCI – non-current	2,000,000	30,000	2.26	30,000	
Petacom Technology Co., Ltd.	Beneficiary certifications Taishin 1699 Money Market Fund	—	Financial assets at FVTPL – current	1,800,000	24,485	-	24,485	
Zotech Co., Ltd.	Securities WPG Holdings Limited. Preferred Stock A	—	Financial assets at FVTOCI – non-current	200,000	9,390	-	9,390	

(Concluded)

Note 1 : Securities, indicated by the above table, are derivative from stock, bonds, beneficiary certificates, and the above items, based on IFRS 9 “Financial Instruments”.

Note 2 : Relevant information about Investments in equity of subsidiaries, associates, see Table 3.

ZERONE TECHNOLOGY CO., LTD.AND SUBSIDIARIES
INFORMATION ON INVESTEES
FOR THREE MONTHS ENDED MARCH 31, 2020

Table 3

(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of 31 March 2019			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				31 March 2020	31 December 2019	Number of Shares	%	Carrying Amount			
The Company	Zotech Technology Co., Ltd.	Taipei City	Services of telecommunication apparatus	\$ 35,000	\$ 35,000	3,500,000	85.37	\$ 43,320	\$ 538	\$ 459	Subsidiary
	Navizot Inc.	Taipei City	Services of telecommunication apparatus	10,000	10,000	597,960	30.00	-	-	-	
	ZeroneWin Investment Co., Ltd.	Taipei City	Investment	100,000	100,000	10,000,000	100.00	81,402	(3,734)	(3,734)	Subsidiary
	Asiaone Holdings Ltd.	Republic of Seychelles	Holding company	10,063	10,063	320,000	100.00	8,423	(951)	(951)	Subsidiary
ZeroneWin Investment Co., Ltd.	WingWill International Co., Ltd.	Taipei City	Services of cloud information software	7,000	7,000	7,000,000	70.00	(5,713)	(2,822)	(1,975)	Sub-subsidiary
	PetaCom technology Co., Ltd.	Taipei City	Services of distribution of information product	50,000	50,000	50,000,000	100.00	41,721	(1,774)	(1,774)	Sub-subsidiary

Note: Please reference table 5 for Information on investment in Mainland China.

ZERONE TECHNOLOGY CO., LTD.AND SUBSIDIARIES
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THREE MONTHS ENDED MARCH 31, 2020

Table 4 (In Thousands of New Taiwan Dollars)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transaction Details			
				Financial Statement Accounts	Amount (Note 4)	Payment Terms	% of Total Sales or Assets (Note 3)
0	The company	WingWill International Co., Ltd.	1	Other receivables	\$ 15,189	-	-

Note 1 : Business between the parent and subsidiaries is numbered as follows:

1. Parent:0.
2. Subsidiaries are numbered from 1 in order.

Note 2 : 3 types of relationship between parties is numbered as follows:

1. Parent to subsidiary.
2. Subsidiary to parent.
3. Between subsidiaries.

Note 3 : Percentage of transaction amounts to consolidated operating revenues or consolidated total assets: If the account is a balance sheet account, it shall be calculated by dividing the ending balance into consolidated total assets; if the account is an income statement account, it shall be calculated by dividing the yearly cumulative balance into consolidated operating revenues.

Note 4 : Only the related parties' transactions over 5,000 thousand are disclosed.

ZERONE TECHNOLOGY CO., LTD.AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THREE MONTHS ENDED MARCH 31, 2020

Table 5

(In Thousands of New Taiwan Dollars/Foreign Currency)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2020	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of March 31, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of March 31, 2020	Accumulated Repatriation of Investment Income as of March 31, 2020	Note
					Outward	Inward							
Techone (Shanghai)Co., Ltd.	Services of Network Technology	\$ 12,765 (RMB 3,000)	(Note 1)	\$ -	\$ 9,118	\$ -	\$ 9,118	(\$ 1,307)	70%	(\$ 915)	\$ 8,032	\$ -	—

Accumulated Outward Remittance for Investments in Mainland China as of March 31, 2020	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA(Note 3)
\$ 9,204 (USD 305)	(Note 5)	\$ 1,498,538

Note 1 : The company directly holds 100% of a subsidiary-Asiaone Holdings Ltd., which reinvests the company in Mainland China.

Note 2 : Amount was recognized based on the financial statements which were not reviewed by CPAs on March 31, 2020.

Note 3 : Determined by sixty percent (60%) of the Company's consolidated net worth, reviewed by CPAs on March 31, 2020($2,497,564 \times 60\% = 1,498,538$)。

Note 4 : For foreign currency conversion, income (loss) are converted by the average exchange rate in 2020 Q1. Other amounts are converted into New Taiwan Dollars by the exchange rate on March 31, 2020.

Note 5 : The reporting procedure is on the process.

ZERONE TECHNOLOGY CO., LTD.AND SUBSIDIARIES

INFORMATION ON MAJOR SHAREHOLDERS
MARCH 31, 2020

Table 6

Shareholders	Shares	
	Total Shares Owned (In Thousands)	Ownership Percentage
Chia Hsin Lin	9,523,292	7.62%
Ceres Investment Co., Ltd.	9,506,594	7.61%

Note : This table presents information provided by the Taiwan Depository & Clearing Corporation on stockholders holding greater than 5% of the Group's ordinary and preference shares including treasury stock in dematerialized form that have completed the process of registration and delivery by book-entry transfer as of the last business day for the current quarter. The share capital recorded, and the actual registered non-physical shares may differ due to different basis of preparation.